

**REPORT OF THE AUDIT OF THE
HENDERSON COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

April 29, 2003



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CRIT LUALLEN
Auditor of Public Accounts

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Sandy Watkins, Henderson County Judge/Executive

Honorable Dennis W. Clary, Henderson County Sheriff

Members of the Henderson County Fiscal Court

The enclosed report prepared by Berger & Company CPA, PSC, Certified Public Accountants, presents the Henderson County Sheriff's Settlement - 2002 Taxes as of April 29, 2003.

We engaged Berger & Company CPA, PSC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Berger & Company CPA, PSC evaluated the Henderson County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure





**REPORT OF THE AUDIT OF THE
HENDERSON COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

April 29, 2003

EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
HENDERSON COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

April 29, 2003

Berger & Company, CPA, PSC has completed the audit of the Sheriff's Settlement - 2002 Taxes for Henderson County Sheriff as of April 29, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$14,165,961 for the districts for 2002 taxes, retaining commissions of \$431,264 to operate the Sheriff's office. The Sheriff distributed taxes of 13,700,385 to the districts for 2002 Taxes. Refunds of \$1,016 are due to the Sheriff from the taxing districts.

Report Comment:

- The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$669,600 To Protect Deposits

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To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Sandy Watkins, Henderson County Judge/Executive
Honorable Dennis W. Clary, Henderson County Sheriff
Members of the Henderson County Fiscal Court

Independent Auditor's Report

We have audited the Henderson County Sheriff's Settlement - 2002 Taxes as of April 29, 2003. This tax settlement is the responsibility of the Henderson County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Henderson County Sheriff's taxes charged, credited, and paid as of April 29, 2003, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated December 12, 2003, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Sandy Watkins, Henderson County Judge/Executive

Honorable Dennis W. Clary, Henderson County Sheriff

Members of the Henderson County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$669,600 To Protect Deposits

Respectfully submitted,

A handwritten signature in black ink that reads "Berger & Company CPA PSC". The signature is written in a cursive, flowing style.

Berger & Company CPA, PSC

Audit fieldwork completed -
December 12, 2003

HENDERSON COUNTY
DENNIS W. CLARY, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2002 TAXES

April 29, 2003

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,390,246	\$ 1,252,492	\$ 6,270,588	\$ 1,964,594
Tangible Personal Property	200,387	180,723	814,657	1,076,034
Intangible Personal Property				285,321
Fire Protection	1,079			
Increases Through Exonerations	2,095	1,855	9,450	3,203
Franchise Corporation	144,959	130,682	604,600	
Additional Billings	795	710	3,656	1,152
Unmined Coal - Prior Years	259	204	1,193	375
Unmined Coal - 2002 Taxes	16,965	15,021	76,520	23,857
Oil and Gas Property Taxes	12,168	10,774	54,883	17,111
Limestone, Sand, and Mineral Reserves	36	32	162	50
Penalties	9,794	8,829	43,843	14,302
Adjusted to Sheriff's Receipt	(5)	9	17	24
Gross Chargeable to Sheriff	<u>\$ 1,778,778</u>	<u>\$ 1,601,331</u>	<u>\$ 7,879,569</u>	<u>\$ 3,386,023</u>
<u>Credits</u>				
Exonerations	\$ 5,866	\$ 5,220	\$ 26,400	\$ 9,873
Discounts	25,894	23,331	115,020	52,498
Delinquents:				
Real Estate	23,180	20,796	104,560	32,606
Tangible Personal Property	3,679	3,318	14,958	7,448
Intangible Personal Property				881
Unmined Coal - 2002 Taxes	540	478	2,435	759
Total Credits	<u>\$ 59,159</u>	<u>\$ 53,143</u>	<u>\$ 263,373</u>	<u>\$ 104,065</u>
Taxes Collected	\$ 1,719,619	\$ 1,548,188	\$ 7,616,196	\$ 3,281,958
Less: Commissions *	<u>73,371</u>	<u>65,798</u>	<u>152,324</u>	<u>139,771</u>
Taxes Due	\$ 1,646,248	\$ 1,482,390	\$ 7,463,872	\$ 3,142,187
Taxes Paid	1,644,940	1,480,998	7,456,849	3,117,598
Refunds (Current and Prior Year)	<u>1,610</u>	<u>1,436</u>	<u>7,378</u>	<u>24,904</u>
Refunds Due Sheriff		**		
as of Completion of Fieldwork	<u>\$ (302)</u>	<u>\$ (44)</u>	<u>\$ (355)</u>	<u>\$ (315)</u>

* And ** See Page 4.

The accompanying notes are an integral part of this financial statement.

HENDERSON COUNTY
DENNIS W. CLARY, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2002 TAXES
April 29, 2003
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	6,539,765
2% on	\$	7,616,196

** Special Taxing Districts:

Library District	\$	(9)
Health District		(32)
Extension District		<u>(3)</u>
Refunds Due Sheriff	\$	<u><u>(44)</u></u>

The accompanying notes are an integral part of this financial statement.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS

April 29, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 31, 2002, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$669,600 of public funds uninsured and unsecured.

HENDERSON COUNTY
 NOTES TO FINANCIAL STATEMENT
 April 29, 2003
 (Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of December 31, 2002.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	1,000,000
Uncollateralized and uninsured	<u>669,600</u>
Total	<u>\$ 1,769,600</u>

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 22, 2002 through April 29, 2003.

Note 4. Interest Income

The Henderson County Sheriff earned \$11,792 as interest income on 2002 taxes. The Sheriff distributed the interest to the school district as required by statute, and the remainder will be used to operate the Sheriff's office. As of December 12, 2003, the Sheriff owes \$467 in interest to the school district and the Sheriff's fee account owes the tax account \$463 in interest that were overpaid to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Henderson County Sheriff collected \$56,278 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Henderson County Sheriff collected \$8,631 of advertising costs and advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

COMMENT AND RECOMMENDATION

HENDERSON COUNTY
DENNIS W. CLARY, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

April 29, 2003

The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$669,600 To Protect Deposits

On December 31, 2002, \$669,600 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

County Sheriff's Response:

Corrected With Bank.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Sandy Watkins, Henderson County Judge/Executive

Honorable Dennis W. Clary, Henderson County Sheriff

Members of the Henderson County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Henderson County Sheriff's Settlement - 2002 Taxes as of April 29, 2003, and have issued our report thereon dated December 12, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Henderson County Sheriff's Settlement -2002 Taxes as of April 29, 2003 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$669,600 To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Henderson County Sheriff internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in cursive script that reads "Berger & Company CPA PSC".

Berger & Company CPA, PSC

Audit fieldwork completed -
December 12, 2003

